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NFPA Economics Monthly
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THE UNITED STATES AND CANADA: A TRADE WAR BREWS

On February 26, 1985, United States and Canadian representatives met in Ottawa to discuss trade in forest products between the two countries. A second encounter took place on April 24, 1985 in Washington, D.C. These meetings were not "negotiations" but were being held to share information and communicate the nature of problems being experienced by the industry in North America. From the U.S. side, the problem is clear: Canadian imports of softwood lumber have increased rapidly in both volume and market share until 1979, more slowly but persistently since then.

In addition to softwood lumber imports, U.S. producers are pressing the Canadians for "fair trade" in other areas as well. The Reagan Administration is committed to removing further trade barriers with Canada. Tariffs on wood products may be one area where substantive agreements can be reached. For most wood products, Canadian tariffs are higher than the U.S. duties.

U.S./Canada -- Major Trading Partners

The United States and Canada are each other's largest customers. The value of trade between the two countries exceeded $113 billion in 1984. The U.S. shipped $46 billion worth of goods to Canada, while $67 billion flowed the other way -- a net trade deficit for the U.S. of $21 billion. In 1984, 75 percent of the value of all Canadian exports were destined for the U.S.; the U.S. accounted for 71 percent of all imports into Canada.

Quebec Summit Leaves Wood Products Out

President Reagan met with Prime Minister Mulroney in Quebec on March 17-18, 1985 in the so-called "Quebec Summit." The two leaders agreed to a process for resolving trade "irritants" and for developing a free trade agenda between the U.S. and Canada. Although wood products was not identified as one of the trade irritants discussed at the meeting, there has been considerable discussion at several levels of government since then.

James Kelleher, the Canadian Minister for International Trade, is currently hearing from industry representatives in his country. He will draft recommendations regarding U.S./Canadian trade relations

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MONTHLY STATISTICAL HIGHLIGHTS

Lumber production in January was at a seasonally adjusted rate of 35,957 million board feet.

New orders for lumber were up 13.9 percent to 2,702 million board feet.

Structural panel production was up 20.8 percent in January when compared with December, 13 percent over January, 1984.

The value of U.S. exports of wood products was $202.1 million in January; imports $330.8 million.

Imports of softwood lumber from Canada were 2.2 percent higher in January when compared with January, 1984.

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sometime in June. Canada's primary objectives are to guarantee free and preferential access to the U.S. market, to receive an exemption from "Buy America" restrictions in U.S. government procurement contracts, and to continue to protect certain industries which would be hurt by removal of that country's tariffs and other protections. Canada has potentially more to gain by free trade than does the U.S. The U.S. market of 230 million people is ten times the size of Canada's, and the geographic distances are much easier to deal with considering the size of the customer pool.

The Facts of Trade in Wood Products

Forest products are one of Canada's largest export items. The United States has always been Canada's major market for lumber. In 1984, 65 percent of Canadian production of softwood lumber was shipped to the United States. Canada shipped $3.4 billion worth of forest products to the U.S., most of which was softwood lumber. In contrast, the U.S. sold $381 million of wood products to Canada.

The volume of softwood lumber imported to the U.S. from Canada in 1984 reached 13.2 billion board feet, (see Figure 1) accounting for 30.8 percent of all softwood lumber consumed in the United States. This is a dramatic increase in Canadian imports compared with 1975, when the Canadian volume amounted to 5.7 billion board feet, or 18.7 percent of consumption. From 1970 until 1975, Canadian lumber accounted for between 18 and 21 percent of consumption.

All U.S. Regions Are Up Against the Canadian Flow

Canadian imports have penetrated markets in every region of the U.S. In volume, the impact has been greatest in the fourteen southern states, where Canadian lumber accounted for 3.8 billion board feet of estimated consumption in 1983 (see Figure 2). This represented 26 percent of the total southern market. The volume consumed in the northeast region amounted to 3.1 billion board feet, representing a market share in that region of 63 percent (see Figure 4). Data for 1984 are unavailable but are probably not significantly different.

In January of this year, Canadian imports have continued to be a major force in the marketplace. Imports were up 2 percent on a volume basis over January of last year; close to 70 percent of Canadian production of softwood lumber was exported to the U.S. during the month. Five years ago, the share of Canada's production shipped to the U.S. was 51 percent. Spruce is the major species imported from Canada, with hemlock and red cedar also accounting for significant volumes.

Why the Canadians Have Been Successful

There are several reasons why Canadian producers have captured such a large share of the U.S. market. In addition to the advantage provided by a high U.S. dollar, Canadian producers have benefited from an assured supply of raw material at low cost, a consumer preference in some U.S. regions for Canada's S-P-F and Cedar products, and, according to many U.S. producers, lower transportation and other costs because of government assistance.

ITA Petition Was Unsuccessful; U.S. Producers Believe Its Conclusions Incorrect

A petition filed with the U.S. Department of Commerce by a group of U.S. producers in 1982 contended that the Canadian government was subsidizing its lumber industry by providing timber at below market prices, while also providing other assistance packages to Canada's forest industry. The ITA ruled against the producers arguing that (1) a subsidy did not exist because the government of Canada makes raw material "generally available" to

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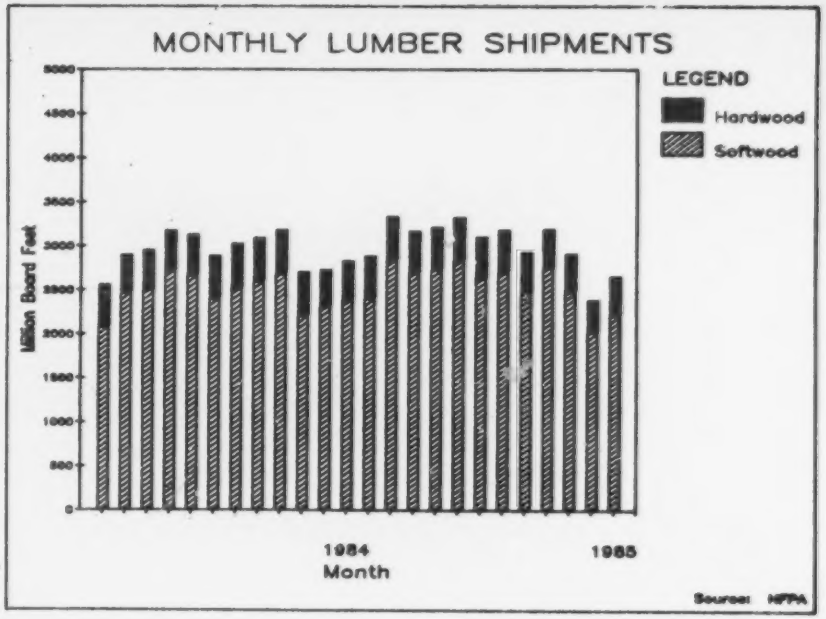
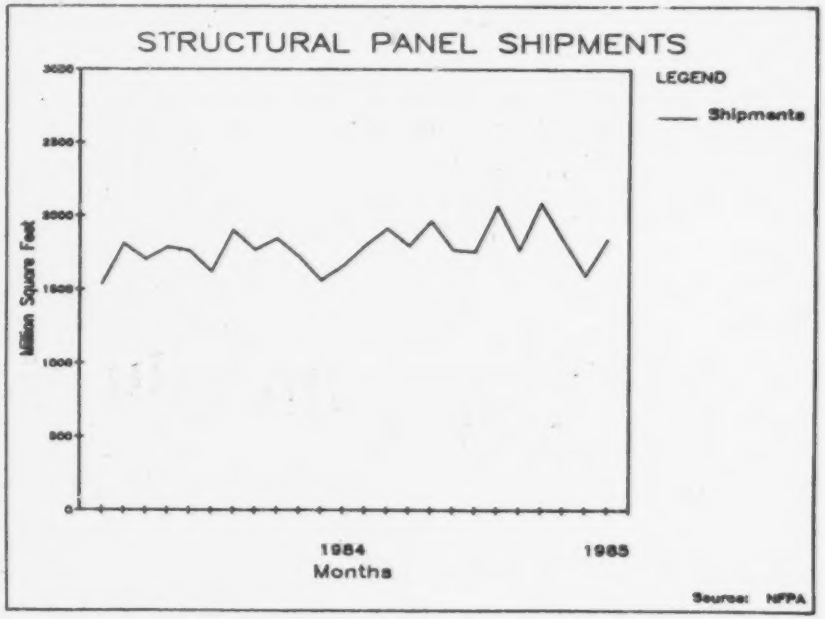
ECONOMICS MONTHLY
April, 1985

MONTHLY STATISTICS FOR THE WOOD PRODUCTS INDUSTRY

	ESTIMATED INDUSTRY TOTALS BY PRODUCING REGION				
	JANUARY 1985			JANUARY 31, 1985	
	Production	Shipments	Orders Received	Unfilled Orders	Gross Stocks
SOFTWOOD LUMBER		(Million Board Feet)			
Southern Pine Region	769	739	750	574	1,841
Douglas Fir Region	606	602	602	561	846
Western Pine Region	636	646	647	408	1,195
California Redwood Region	162	132	154	130	362
Other Softwoods	110	107	109	230	289
TOTAL SOFTWOODS	2,283	2,226	2,262	1,903	4,533
% Change - December 1984	10.6%	2.1%	14.1%	1.9%	1.3%
% Change - January 1984	-10.7%	-6.7%	-9.3%	-16.1%	-1.6%
HARDWOOD LUMBER					
Southern Hardwood Region	196	196	196	222	802
Appalachian Hardwood Reg.	35	33	33	*	*
Other Hardwoods	213	211	211	157	964
TOTAL HARDWOODS	444	440	440	379	1,766
% Change - December 1984	9.6%	15.8%	12.8%	0.0%	0.2%
% Change - January 1984	-2.6%	-3.1%	-12.0%	-12.5%	14.5%
TOTAL LUMBER	2,727	2,666	2,702	2,282	6,299
% Change - December 1984	10.4%	4.1%	13.9%	1.6%	1.0%
% Change - January 1984	-9.5%	-6.1%	-9.8%	-15.5%	2.5%
* Included in Other Hardwoods					
FLOORING		(Thousand Feet)			
Oak Flooring (Bd. Ft.)	NA	9,486	NA	7,363	5,120
Maple Flooring (Sq. Ft.)	1,044	766	708	2,261	2,395
STRUCTURAL PANELS	1,986,614	1,855,927	1,920,005	472,081	459,992
% Change - December 1984	20.8%	16.0%	14.6%	9.7%	26.4%
% Change - January 1984	13.0%	11.3%	2.4%	2.1%	11.9%





YEAR-TO-DATE PRODUCTION, SHIPMENTS, AND ORDERS

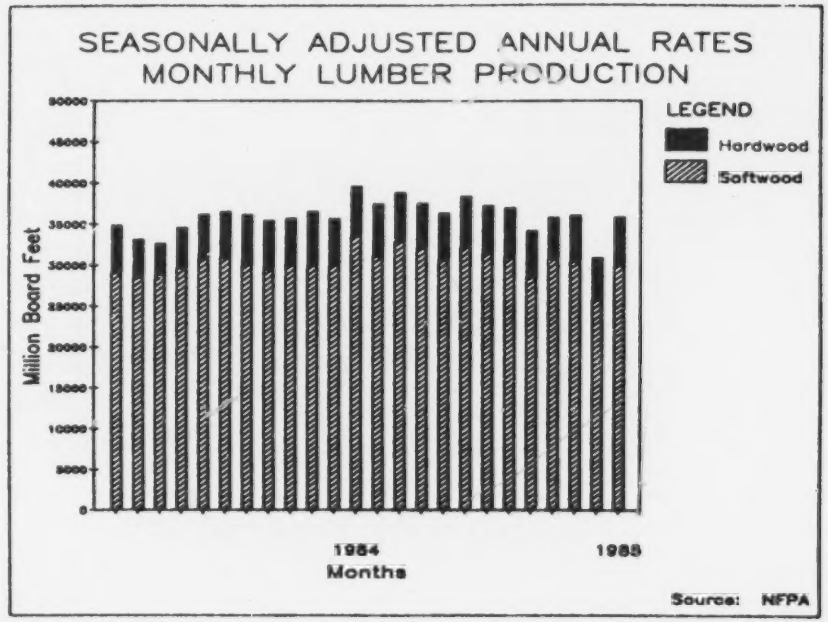
	PRODUCTION		SHIPMENTS		ORDERS RECEIVED	
	Latest Period Available	% Change	Latest Period Available	% Change	Latest Period Available	% Change
	1 mo. '85	1 mo. '84	1 mo. '85	1 mo. '84	1 mo. '85	1 mo. '84
	(Million Board Feet)					
TOTAL LUMBER	2,727	-9.5%	2,666	-6.1%	2,702	-9.8%
TOTAL SOFTWOOD	2,283	-10.7%	2,226	-6.7%	2,262	-9.3%
TOTAL HARDWOOD	444	-2.6%	440	-3.1%	440	-12.0%

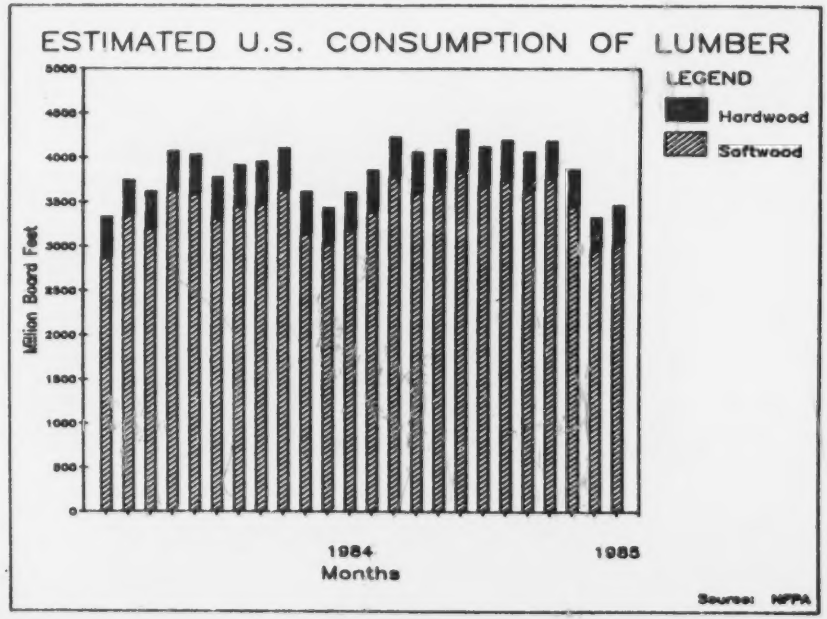
SEASONALLY ADJUSTED ANNUAL RATES

	PRODUCTION			SHIPMENTS		
		--% Change From--			--% Change From--	
LUMBER REGION	Jan. '85	Dec. '84	Jan. '84	Jan. '85	Dec. '84	Jan. '84
	(Million Board Feet)			(Million Board Feet)		
Southern Pine	9,714	-8.6%	-6.7%	9,515	-10.6%	-4.6%
Douglas Fir	7,615	18.1%	-17.6%	7,886	14.1%	-12.2%
Western Pine	9,411	17.3%	-11.5%	9,788	7.5%	-4.3%
Calif. Redwood	1,869	23.6%	3.8%	1,579	-20.5%	-2.2%
Other Softwoods	1,449	11.0%	-10.6%	1,484	6.5%	-7.0%
TOTAL SOFTWOODS	30,057	7.7%	-10.8%	30,253	0.7%	-6.6%
TOTAL HARDWOODS	5,900	11.1%	-2.6%	5,366	5.6%	-3.1%
TOTAL LUMBER	35,957	8.2%	-9.6%	35,619	1.4%	-6.1%

U.S. LUMBER CONSUMPTION

	CURRENT			YEAR-TO-DATE	
	Latest Month Available	----% Change From----		Latest Period Available	% Change From
	Jan. '85	Dec. '84	Jan. '84	1 mo. '85	1 mo. '84
	(Million Board Feet)				
Total Consumption	3,475	-0.9%	-4.0%	3,475	-4.0%
Softwood Consumption	3,037	-3.1%	-4.5%	3,037	-4.5%
Hardwood Consumption	437	17.8%	.0%	437	.0%

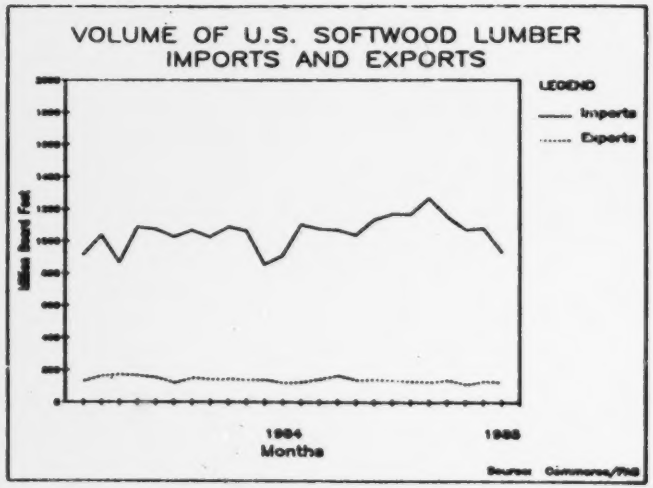


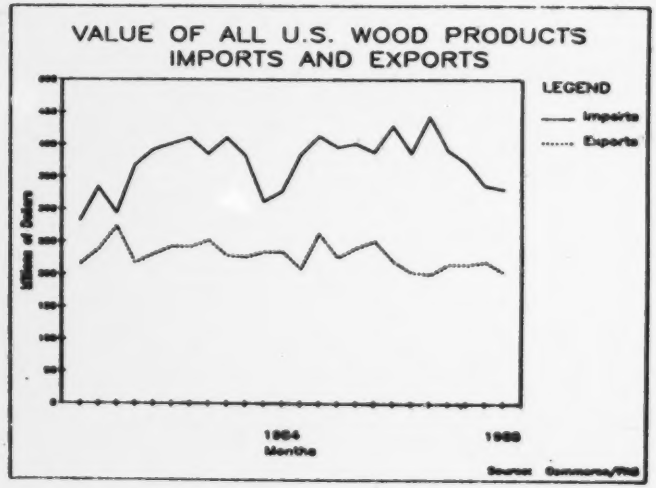


INTERNATIONAL TRADE STATISTICS

		VOLUME				VALUE (000$)			
		Jan. '85	1 mo. 1985	% Change From Dec. '84	% Change From 1 mo. 1984	Jan. '85	1 mo. 1985	% Change From Dec. '84	% Change From 1 mo. 1984
EXPORTS									
SOFTWOOD LUMBER	MMBF	124.3	124.3	-4.5%	5.6%	41,201	41,201	-5.0%	5.0%
To Canada	MMBF	19.3	19.3	16.4%	-34.4%	5,092	5,092	23.9%	-33.0%
SOFTWOOD LOGS	MMBF	279.1	279.1	-6.4%	-1.4%	82,554	82,554	-7.2%	-10.2%
SOFTWOOD PLYWOOD	MMSF 3/8"	35.1	35.1	-19.0%	-47.3%	7,770	7,770	-23.6%	-54.6%
HARDWOOD LOGS	MMBF	12.4	12.4	-46.3%	-16.4%	8,332	8,332	2.2%	-10.3%
HARDWOOD VENEER	MMSFsurf	66.7	66.7	-0.9%	-29.7%	5,101	5,101	2.0%	-18.7%
PARTICLEBOARD	MMSF 3/4"	8.2	8.2	-1.8%	-45.3%	1,597	1,597	-7.9%	-41.2%
ALL OTHER		NA	NA	NA	NA	34,835	34,835	-13.0%	-15.1%
TOTAL U.S. EXPORTS		NA	NA	NA	NA	202,191	202,191	-7.5%	-13.7%
IMPORTS									
SOFTWOOD LUMBER	MMBF	935.6	935.6	-13.6%	2.4%	178,113	178,113	-12.3%	-3.5%
From Canada	MMBF	928.2	928.2	-13.5%	2.2%	177,181	177,181	-12.0%	-3.4%
SOFTWOOD LOGS	MMBF	10.9	10.9	129.1%	80.4%	2,213	2,213	178.4%	85.2%
SOFTWOOD PLYWOOD	MMSF 3/8"	10.0	10.0	143.4%	97.7%	1,563	1,563	61.3%	81.3%
HARDWOOD LUMBER	MMBF	33.1	33.1	32.9%	23.5%	16,230	16,230	42.8%	16.3%
HARDWOOD LOGS	MMBF	2.3	2.3	17.6%	-1.5%	332	332	-37.8%	7.1%
HARDWOOD VENEER	MMSFsurf	84.5	84.5	-22.5%	-12.7%	6,677	6,677	-12.8%	-36.7%
HARDWOOD PLYWOOD	MMSF 3/8"	281.8	281.8	95.5%	24.5%	40,108	40,108	93.9%	14.9%
PARTICLEBOARD	MMSF 3/4"	105,771.8	105,771.8	-3.2%	48.8%	9,713	9,713	-6.3%	48.2%
ALL OTHER		NA	NA	NA	NA	75,788	75,788	-5.3%	1.0%
TOTAL U.S. IMPORTS		NA	NA	NA	NA	330,807	330,807	-1.5%	0.8%

Note: Volume total is not possible because the products are in different units of measure.



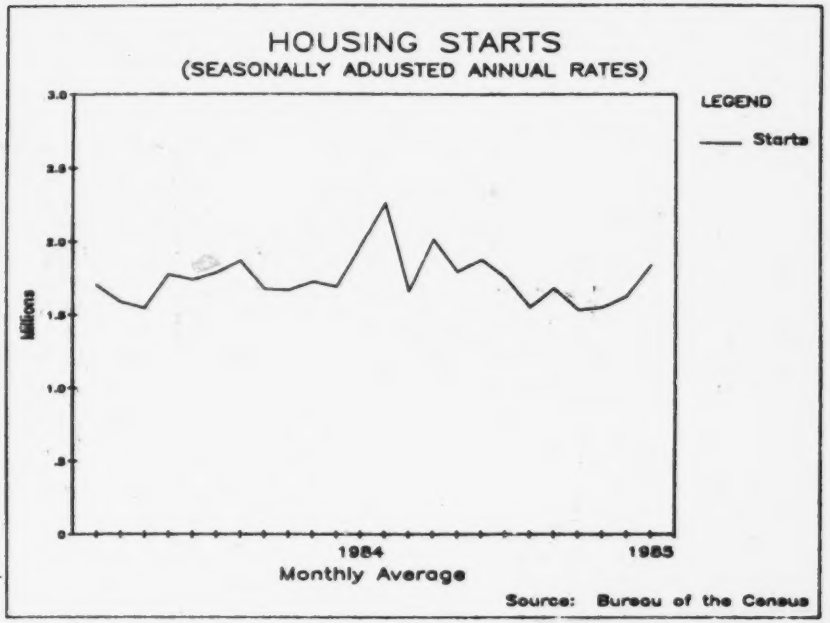


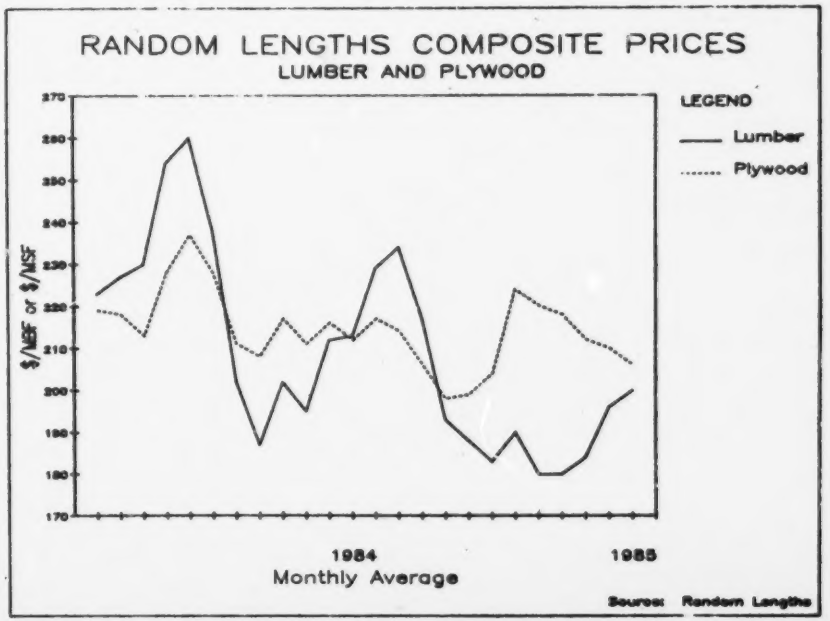
CONSTRUCTION AND HOUSING STATISTICS

	CURRENT			YEAR-TO-DATE	
	Latest Month Available	% Change From		Latest Period Available	% Change From
	Jan. '85	Dec. '84	Jan. '84	1 mo. '85	1 mo. '84
	(Billions of Dollars)				
VALUE OF ALL NEW CONSTRUCTION PUT-IN-PLACE	-				
	21.9	-9.9%	12.8%	21.9	12.8%
Private	18.3	-10.3%	12.4%	18.3	12.4%
Residential	8.8	-7.4%	4.3%	8.8	4.3%
Nonresidential & Other	9.5	-12.8%	21.1%	9.5	21.1%
Public	3.6	-10.0%	14.6%	3.6	14.6%
	Jan. '85	Dec. '84	Jan. '84	1 mo. '85	1 mo. '84
	(Thousands of Units)				
NEW HOUSING UNITS STARTED					
Total Private & Public	105.3	6.4%	-19.2%	105.3	-56.1%
New Private Starts	105.3	6.5%	-19.0%	200.3	-16.2%
Seas. Adj. Annual Rate	1841	12.9%	-18.6%		
One-Family Housing Starts	59.6	-5.1%	-26.4%	122.0	-18.0%
Proportion of Total	56.6%			115.9%	
	(Number of Units)				
SHIPMENTS OF MOBILE HOMES	18,600	12.0%	-7.0%	18,600	-7.0%

EMPLOYMENT STATISTICS

		% Change From	
	Jan. '85	Dec. '84	Jan. '84
	(Thousands of Employees)		
TOTAL EMPLOYMENT (Seasonally Adj.)			
All Industries	95,993	0.3%	3.4%
All Manufacturing Industries	19,805	.0%	2.2%
Lumber and Wood Products	716	-0.1%	1.4%
Furniture and Fixtures	497	0.4%	3.5%





ECONOMICS BULLETIN
CANADIAN IMPORTS OF SOFTWOOD LUMBER

Figure 1:

U.S. softwood lumber imports reached 13.2 billion board feet in 1984, 30.8 percent of U.S. softwood lumber consumption.

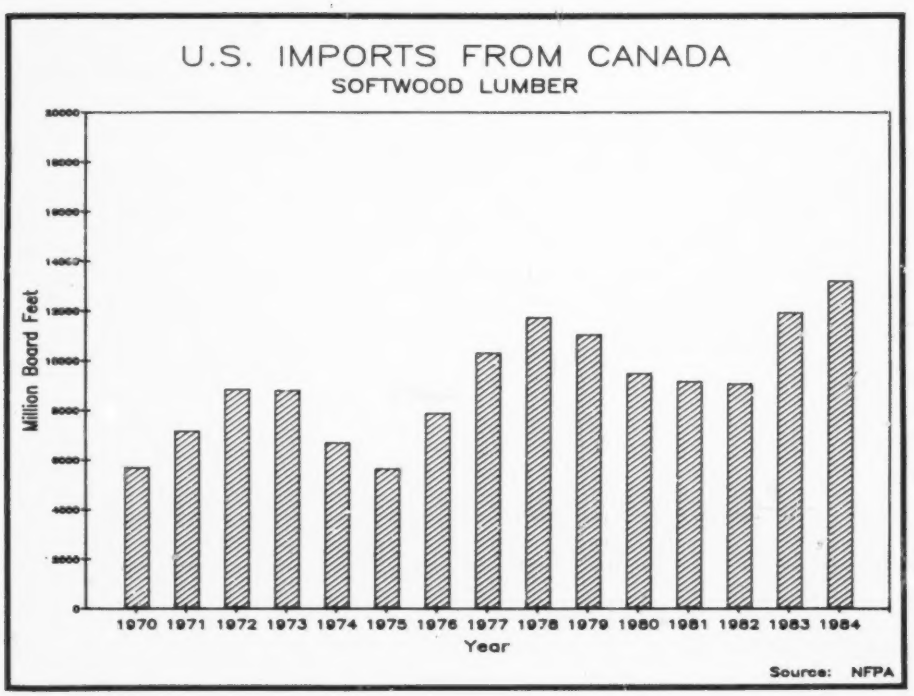

U.S. IMPORTS FROM CANADA
SOFTWOOD LUMBER
Million Board Feet
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984
Year
Source: NFPA

Figure 2:

Canadian imports have penetrated every U.S. region.

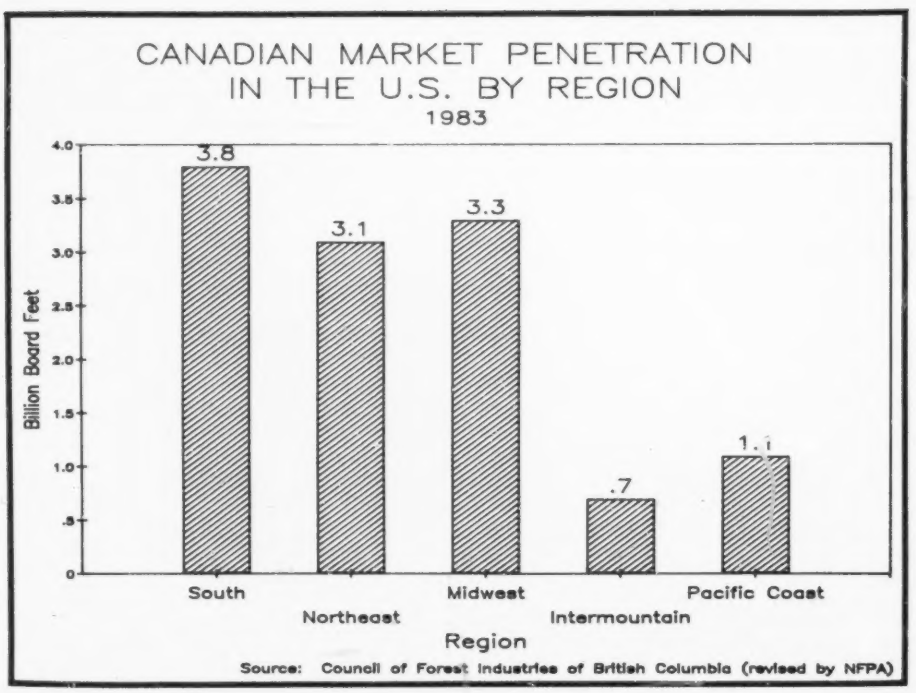


Figure 3:

The rise in Canadian market share has paralleled the rise in the U.S. dollar.

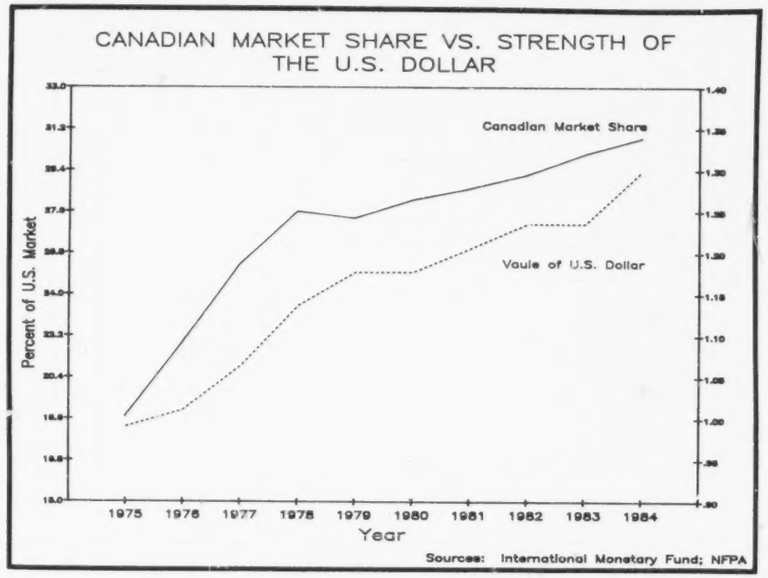
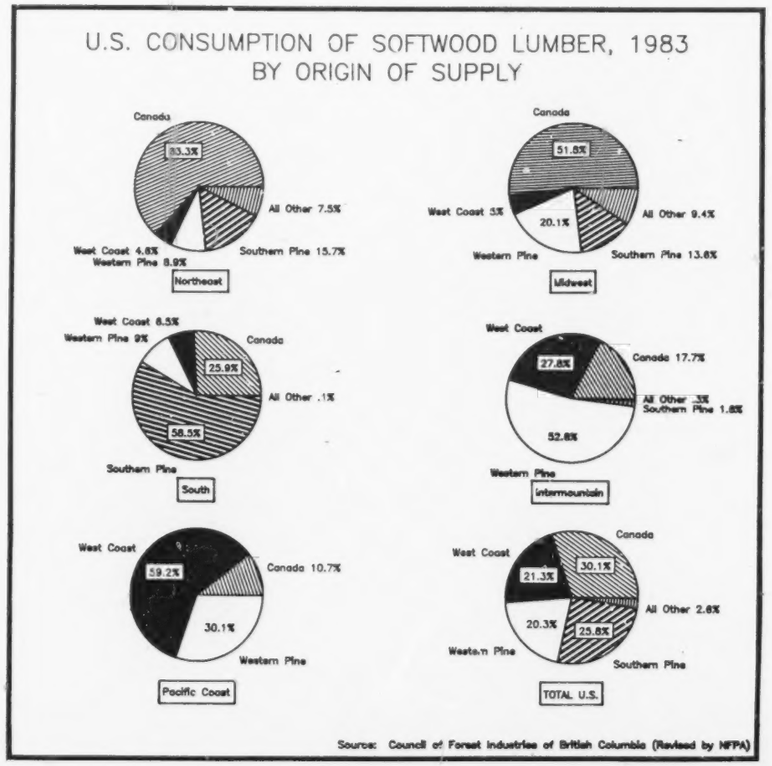


Figure 4:

Canadian imports have the highest market share in the Northeast and midwest.



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all using industries, and (2) if all adjustments were made for species, quality, access, etc., the resulting values would be comparable to U.S. prices. The ITA also ruled that if any subsidies existed, they were de minimis, too small to account for any competitive advantages.

Is there anything to the subsidy argument? The Department of Commerce may have ruled not in 1982. However, the situation in today's world is different and there must be some explanation for the ability of the Canadians to do so well in the U.S. Theories abound on both sides of the border. Canadians cite savvy marketing, consumer preference, and the inability of the U.S. industry to supply its domestic demand. On this side of the border, producers look primarily at raw material and transportation costs and argue that the Canadians are artificially stimulating the forest industry.

The Canadian Stumpage Advantage

The single largest cost component for producing lumber is raw material. As a percent of total production costs, the cost of roundwood runs between 55 and 65 percent.

There are some fundamental differences in the cost structure between raw material in the U.S. and in Canada. First and foremost is the ownership of timber. Canadian timber is predominantly publicly owned. No less than 92% of Canada's productive timberland is owned and controlled by the provincial governments, federal and local entities. Contrast this with the U.S., where 67 percent of the softwood sawtimber harvest originates on private lands.

The U.S. has a highly competitive market system for timber procurement, even on publicly-owned lands. In Canada, the provinces administer long-term licenses and agreements. These enable producers to have a guaranteed source of material at a price adjusted for the current market through a residual value appraisal. The approach includes an allowance for profit and risk. This is similar to the appraisal system used on the U.S. national forests. But in the U.S., the appraised price is most often the minimum bid price in an auction which sells timber to the highest bidder. Hence, the profit and risk allowance is frequently "bid away." Because U.S. producers face an uncertain timber supply situation, they operate with considerably greater risk.

The Currency Factor

The U.S. dollar has exhibited phenomenal strength since 1980 against virtually all world currencies, including the Canadian dollar. In January, the U.S. dollar was 32 percent higher than the Canadian dollar. Clearly, the strong dollar has had an impact on the ability of the Canadians to compete so well in the U.S. The Canadian dollar has exhibited signs of strength against overseas currencies, while declining in value vis-a-vis the U.S. This has put a brake on Canadian exports overseas, but has stimulated exports to the U.S. In fact, the rise of the U.S. dollar has paralleled the rise in the Canadian market share (see Figure 3).

Some argue that currency differences do not significantly affect the Canadian costs. Wage rates are cited as a case in point. Since the same unions represent workers on both sides of the border, wage rates in the U.S. have historically been comparable to those in British Columbia. It must be pointed out, however, that during times of rapid U.S. dollar escalation, labor costs will give an advantage to Canadian producers until adjustments are made in contracts. Also, wage rates have

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little to do with the Canadian success in the U.S. South. There, wage rates are significantly lower, half as high in some cases.

U.S. producers also contend that the Canadians are helped by less expensive rail and waterborne shipping charges. In fact, the Jones Act in the U.S. does make it less economic to transport lumber from West coast ports to other U.S. destinations. However, the volume of lumber currently shipped from western ports is low --- less than 3 percent of western U.S. shipments, and 16 percent of British Columbia shipments.

Transcontinental rail costs across Canada may be less than in the U.S., but comparisons with U.S. rates are complicated by the Staggers Act which deregulated the railroads.

The Basic Problem

Canadian production of softwood lumber was at record levels in 1983 and 1984 even though Canadian producers argue that they, too, were feeling the effects of weak lumber prices. Unemployment in the Canadian wood products industry is high; overseas export markets have declined.

The oversupply of U.S. and Canadian lumber has made lumber prices remain at or below the breakeven point for U.S. producers. The real price of lumber has declined in four of the past five years. The Random Lengths composite price in January was 10 percent lower than it was in January of 1980, despite 28 percent inflation during the same period. Many companies in the U.S. announced mill closings at the end of last year; many others are threatened by the spector of continued competition from the North.

As a consequence of the Canadian market penetration, U.S. producers are currently studying administrative and legislative remedies for dealing with the situation.

Monthly Canadian Fact Sheet Available Free to Bulletin Subscribers

Each month, NFPA publishes a statistics sheet on Canadian wood products trade. It shows the most recent month's data on value and volume of U.S. trade with Canada by product category. If you are interested in receiving a copy of this Fact Sheet on a regular basis, please contact Heidi Metzger at 202/797-5892.

Value of U.S. Wood Products Imports from Canada
($000)

	1980	1981	1982	1983	1984
Sftwd. Logs	17,325	16,975	22,920	24,101	14,602
Sftwd. Lum.	1,753,493	1,685,927	1,559,129	2,451,903	2,539,534
Sftwd. Plywd.	1,586	1,244	1,840	2,622	3,053
Hwd. Logs	1,458	1,835	2,777	2,557	3,498
Hwd. Lumber	28,758	27,501	23,511	24,042	29,113
Hwd. Veneer	42,656	48,818	47,017	65,254	72,181
Particleboard	58,589	59,388	51,456	75,422	119,593
Oth. Wd. Prod.	407,256	411,405	371,571	516,006	658,031
TOTAL	2,311,121	2,253,093	2,080,221	3,161,907	3,439,605

Value of U.S. Wood Products Exports to Canada
($000)

	1980	1981	1982	1983	1984
Sftwd. Logs	35,694	31,673	30,718	51,154	62,729
Sftwd. Lum.	101,383	123,043	63,302	104,319	78,736
Sftwd. Plywd.	5,782	28,403	6,948	7,955	5,244
Hwd. Logs	14,372	12,945	11,283	13,638	15,650
Hwd. Lum.	73,169	77,605	60,891	91,689	79,210
Hwd. Veneer	7,368	7,602	5,745	9,712	13,727
Particleboard	10,382	17,279	9,786	10,992	10,403
Oth. Wd. Prod.	138,228	148,086	98,776	114,803	115,582
TOTAL	386,378	446,636	287,449	404,262	381,281

Source: U.S. Department of Commerce and U.S. Foreign Agricultural Service

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NFPA Economics Monthly

An Economics Bulletin of the Forest Products Industry

Volume I Number 3 May, 1985

MID-YEAR FORECAST: BRIGHTER 2ND HALF

The Federal Reserve Board took major action this month. Recognizing that the economy could not keep growing at last year's rate, and in fact, was preparing to stall altogether, the Fed lowered its discount rate to 7.5 percent. This is its lowest level since July, 1978. The prime rate offered by the big lenders also came down to 10 percent, its lowest level since October, 1978. The reductions in these two important drivers of the economy came as business loan growth -- which had expanded at the quick pace of 17.6 percent between December, 1983 and August, 1984 -- slowed to 5.5 percent during the past eight months.

The government revised downward its estimate of growth in the GNP during the first quarter to 0.7 percent, a considerable decline compared with last year's first quarter rate in excess of 10 percent. New factory orders have declined for three consecutive months and the U.S. trade deficit has widened. At the end of April, the trade imbalance stood at $44.63 billion, boosted primarily by the end of the Japanese voluntary auto import restraint.

Housing -- Staying Strong

While the economy has tended to slowdown, housing has been buoyed by lower interest rates. Housing has been remarkably strong and will be further helped by the Fed's action. Housing starts averaged 1.86 million units during the first quarter, with 62.3 percent in single-family starts Last fall, the same pace of housing activity in 1985 was expected as was being experienced in 1984 -- approximately 1.75 million units. In all likelihood, starts will be closer to 1.8 million units this year.

Lumber -- Teetering on a Turnaround

For wood products, this means another record consumption year, surmounting last year's record of 42.9 billion board feet of softwood lumber. It's still amazing that the demand has not pulled company performance with it. The market has been soft throughout the post-1982 recovery. Canadian imports have had the effect of dampening any real improvement in the industry's economic outlook. As noted in the last Bulletin, imports are up for a variety of reasons, not the least of which is the high value of the U.S. dollar.

However, in recent weeks, there has been a noticeable turnaround in price performance. The Random Lengths composite price for softwood lumber was 19 percent higher at the end of May than it was during the first week in January.

(continued ...)

MONTHLY STATISTICAL HIGHLIGHTS

Lumber production in February was at a seasonally adjusted annual rate of 34,275 million board feet.

New orders for lumber were down 0.8 percent to 2,680 million board feet.

Structural panel production was down 12.4 percent in February from the prior month and down 4.8 percent from February, 1984.

The value of U.S. exports of wood products was $203.7 million in February; imports $362.1 million.

Imports of softwood lumber from Canada during the first two months of 1985 were 2.3 percent higher than last year, but the value of imports has declined.

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The lumber market has firmed for several reasons. First, housing starts in April were at a seasonnaly adjusted annual rate of 1.913 million units, indicating an increase in demand over previous months. In fact, this was the highest level of starts since April, 1984. Secondly, the supply of lumber may have tightened as a result of mill closings. A number of companies announced permanent mill closings during the fourth quarter of last year. Finally, with the slowdown in the economy -- a slowdown in the growth in the GNP -- pulp and paper demand has declined. Hence, demand for pulp chips has stabilized. Where some mills produce lumber in order to sell residue chips, this production has declined in recent weeks as the price for chips has softened. The net effect of less supply in a free market is higher prices.

The Prospects: Mixed

The current NFPA forecast assumes the slowdown in the overall economy will continue to be mitigated by lower interest rates. Housing will be the prime beneficiary. On the surface, this is good news for the lumber and wood products industry. However, the industry will continue to be hurt by an oversupply of product even during this time of record consumption. Most economists are not ready to project any changes in the behavior of the overvalued U.S. dollar. Exporting is difficult, given the current exchange rates, so export markets are unlikely to absorb excess lumber. In sum, this will be a better year, but "better" is a relative term.

On the horizon are two major legislative initiatives which will have a bearing on the economy. The Congress is nearing completion of a budget resolution which will trim on the order of $50 billion dollars off of the $200 billion plus deficit. The exact number and the specific make-up of the reductions in federal spending are subject to further negotiation between the House and the Senate, with the House pushing greater slowdowns in defense and the Senate chopping at domestic programs more heavily. While a $50 billion dollar deficit reduction is a step step toward alleviating incredibly large federal debt, there is still a long way to go. It is hard to envision a balanced federal budget again without some action on the revenue collection side.

The so-called "Treasury II" plan to simplify the federal tax code is being met with only slightly less opposition than the first proposal was last fall. For the wood products industry, the key elements of the Administration's proposal are the elimination of timber capital gains and investment tax credits, the requirement that expenses of timberland management be capitalized, and changes in accelerated depreciation. Overall, the bottom line is going to be higher corporate taxes and lower individual rates, reversing the direction of the initial tax cuts in 1981 which significantly reduced the corporate tax burden.

CONSTRUCTION MARKETS

The Department of Commerce reported that new construction put-in-place in March was at a seasonally adjusted annual rate of $324.2 billion. The construction of single-family housing units was valued at $72.5 billion at an annual rate. This represented a 2 percent decline from a year earlier. On the other hand, the value of new construction of nonresidential buildings is continuing an impressive climb which began in 1983. The March figure of $86.4 billion is 19 percent higher than a year ago. Favorable tax treatment and an availability of foreign capital has made investments in office and other commercial structures particularly attractive.

1984 Recap -- By All Measures, A Good Year

Looking at last year's totals, the value of new construction in all of 1984 was $310 billion. After adjusting for inflation, this represented an increase of 12 percent over the prior year. Residential construction was up 13 percent in real terms, or $130 billion in current dollars.

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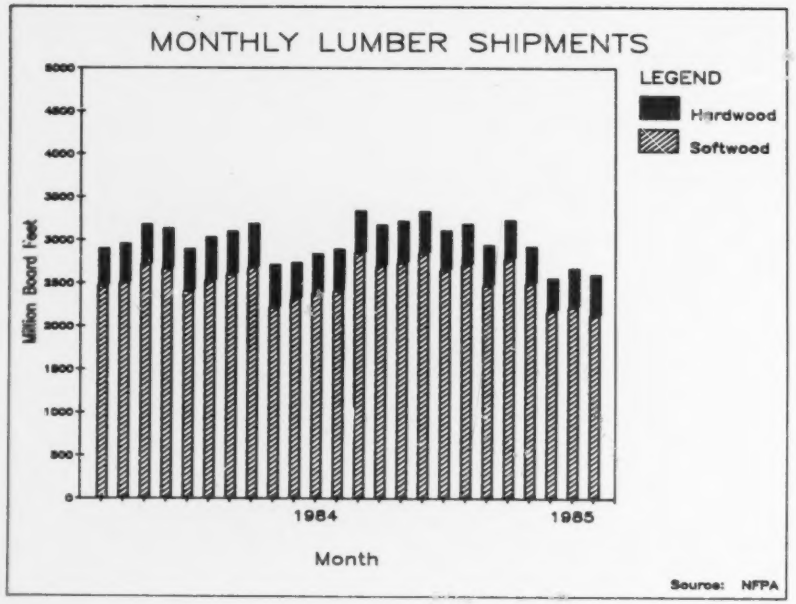
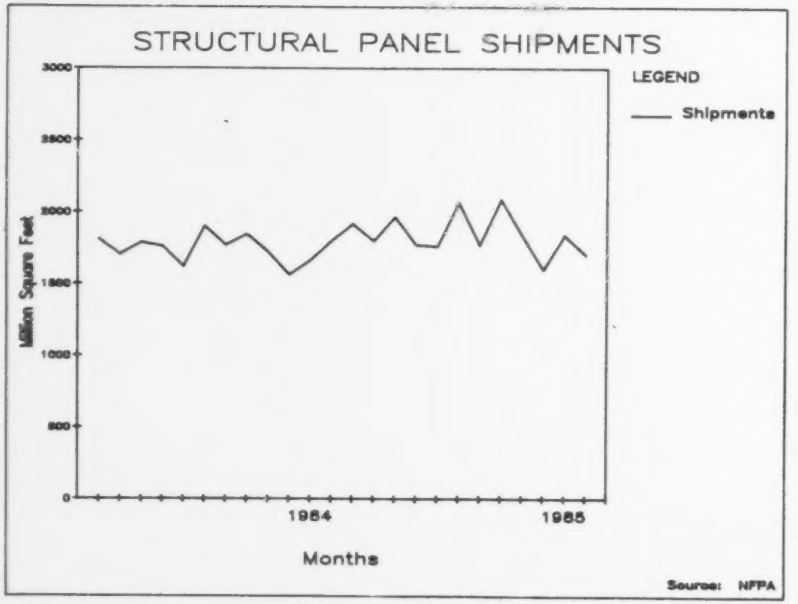
ECONOMICS MONTHLY
May, 1985

MONTHLY STATISTICS FOR THE WOOD PRODUCTS INDUSTRY

	ESTIMATED INDUSTRY TOTALS BY PRODUCING REGION				
	FEBRUARY 1985			FEBRUARY 28, 1985	
	Production	Shipments	Orders Received	Unfilled Orders	Gross Stocks
SOFTWOOD LUMBER		(Million Board Feet)			
Southern Pine Region	783	766	790	598	1,858
Douglas Fir Region	577	549	555	567	874
Western Pine Region	619	585	583	406	1,229
California Redwood Region	151	131	113	112	382
Other Softwoods	108	103	103	230	294
TOTAL SOFTWOODS	2,238	2,134	2,144	1,913	4,637
% Change - January 1985	-2.0%	-4.1%	-5.2%	0.5%	2.3%
% Change - February 1984	-10.3%	-11.6%	-12.0%	-20.3%	-4.5%
HARDWOOD LUMBER					
Southern Hardwood Region	207	202	228	248	807
Appalachian Hardwood Reg.	43	42	47	*	*
Other Hardwoods	230	224	253	192	971
TOTAL HARDWOODS	480	468	528	440	1,778
% Change - January 1985	6.2%	4.5%	17.9%	15.8%	0.7%
% Change - February 1984	-2.6%	-3.5%	7.1%	-9.7%	14.6%
TOTAL LUMBER	2,718	2,602	2,672	2,353	6,415
% Change - January 1985	-0.6%	-2.7%	-1.4%	3.1%	1.8%
% Change - February 1984	-9.0%	-10.2%	-8.8%	-18.5%	0.1%
* Included in Other Hardwoods					
FLOORING		(Thousand Feet)			
Oak Flooring (Bd. Ft.)	NA	8,655	NA	6,940	5,394
Maple Flooring (Sq. Ft.)	800	652	751	2,381	2,587
STRUCTURAL PANELS	1,740,249	1,704,755	1,613,547	343,649	323,705
% Change - January 1985	-12.4%	-8.1%	-16.0%	-27.2%	-29.6%
% Change - February 1984	-4.8%	-5.4%	-9.8%	-23.6%	-22.9%





YEAR-TO-DATE PRODUCTION, SHIPMENTS, AND ORDERS

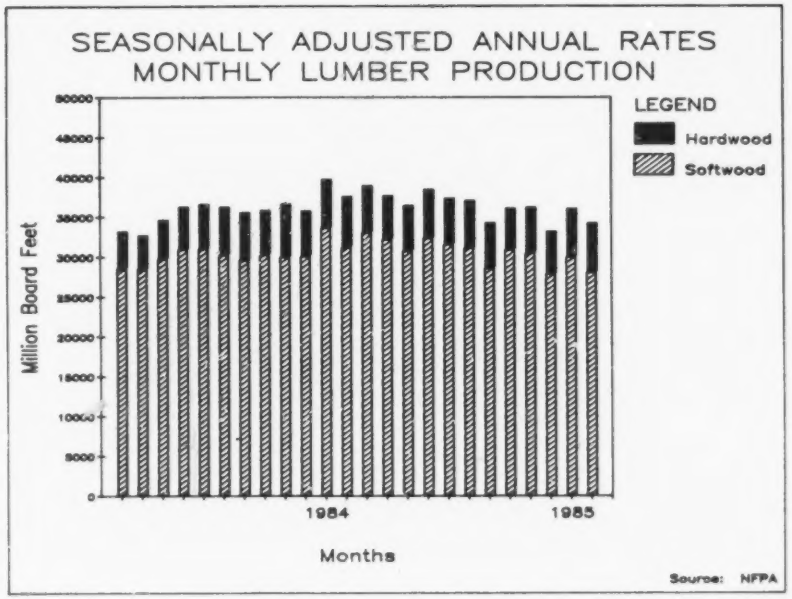
	PRODUCTION		SHIPMENTS		ORDERS RECEIVED	
	Latest Period Available	% Change	Latest Period Available	% Change	Latest Period Available	% Change
	2 mos. '85	2 mos. '84	2 mos. '85	2 mos. '84	2 mos. '85	2 mos. '84
	(Million Board Feet)					
TOTAL LUMBER	5,453	-9.1%	5,276	-8.1%	5,382	-9.2%
TOTAL SOFTWOOD	4,521	-10.5%	4,360	-9.1%	4,406	-10.7%
TOTAL HARDWOOD	932	-1.8%	916	-2.4%	976	-1.7%

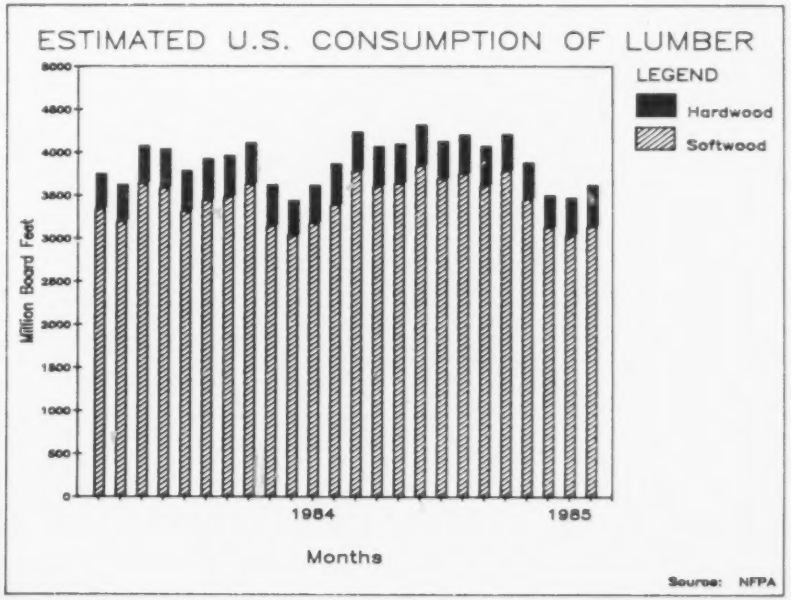
SEASONALLY ADJUSTED ANNUAL RATES

	PRODUCTION			SHIPMENTS		
		---% Change From--			---% Change From--	
LUMBER REGION	Feb. '85	Jan. '85	Feb. '84	Feb. '85	Jan. '85	Feb. '84
	(Million Board Feet)			(Million Board Feet)		
Southern Pine	9,839	1.3%	-11.7%	9,706	2.0%	-11.9%
Douglas Fir	6,973	-8.4%	-16.5%	6,964	-11.7%	-15.0%
Western Pine	8,100	-13.9%	-4.8%	7,508	-23.3%	-7.1%
Calif. Redwood	1,807	-3.4%	2.7%	1,577	-0.2%	-13.8%
Other Softwoods	1,389	-4.1%	-10.0%	1,322	-10.9%	-11.2%
TOTAL SOFTWOODS	28,108	-6.5%	-10.2%	27,077	-10.5%	-11.5%
TOTAL HARDWOODS	6,167	2.7%	-2.6%	5,633	3.1%	-3.5%
TOTAL LUMBER	34,275	-5.0%	-8.9%	32,710	-8.4%	-10.3%

U.S. LUMBER CONSUMPTION

	CURRENT			YEAR-TO-DATE	
	Latest Month Available	----% Change From----		Latest Period Available	% Change From
	Feb. '85	Jan. '85	Feb. '84	2 mos. '85	2 mos. '84
	(Million Board Feet)				
Total Consumption	3,623	4.3%	-6.4%	7,098	-5.2%
Softwood Consumption	3,144	3.5%	-7.4%	6,181	-6.0%
Hardwood Consumption	479	9.6%	0.7%	917	0.3%

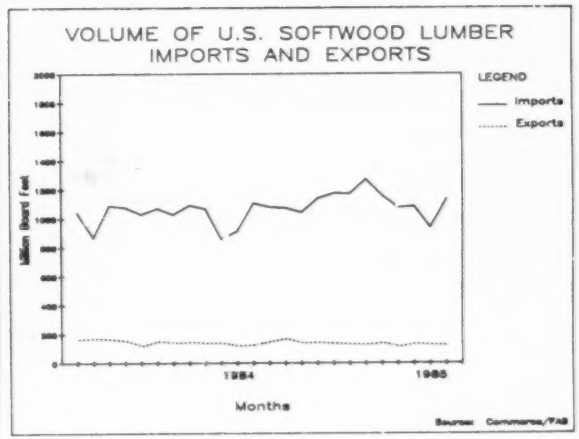


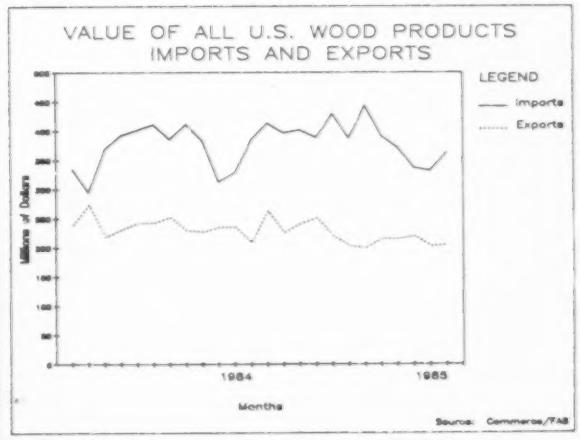


INTERNATIONAL TRADE STATISTICS

		VOLUME				VALUE (000$)			
		Feb. '85	2 mo. 1985	% Change From Jan. '85	% Change From 2 mo. 1984	Feb. '85	2 mo. 1985	% Change From Jan. '85	% Change From 2 mo. 1984
EXPORTS									
SOFTWOOD LUMBER	MMBF	122.0	246.3	-1.8%	1.6%	38,794	79,995	-5.8%	-5.0%
To Canada	MMBF	22.6	41.9	17.3%	-26.5%	5,785	10,877	13.6%	-25.9%
SOFTWOOD LOGS	MMBF	278.5	557.7	-0.2%	7.3%	82,314	164,868	-0.3%	-2.1%
SOFTWOOD PLYWOOD	MMSF 3/8"	43.8	78.9	24.8%	-34.8%	9,912	17,682	27.6%	-40.9%
HARDWOOD LOGS	MMBF	9.4	21.8	-24.6%	-20.7%	8,115	15,447	-2.6%	-9.5%
HARDWOOD VENEER	MMSFsurf	53.3	119.9	-20.1%	-33.6%	5,145	10,246	0.9%	-24.5%
PARTICLEBOARD	MMSF 3/4"	9.1	17.3	11.2%	-27.2%	1,708	3,305	7.0%	-31.0%
ALL OTHER		NA	NA	NA	NA	38,859	73,694	11.6%	.0%
TOTAL U.S. EXPORTS		NA	NA	NA	NA	203,773	405,964	0.8%	-8.3%
IMPORTS									
SOFTWOOD LUMBER	MMBF	1,131.6	2,067.2	21.0%	2.4%	215,303	393,416	20.9%	-6.4%
From Canada	MMBF	1,129.0	2,057.3	21.6%	2.3%	214,324	391,505	21.0%	-6.5%
SOFTWOOD LOGS	MMBF	2.5	13.3	-77.4%	-34.9%	712	2,925	-67.8%	-6.7%
SOFTWOOD PLYWOOD	MMSF 3/8"	4.7	14.7	-52.7%	39.2%	1,407	2,970	-10.0%	27.6%
HARDWOOD LUMBER	MMBF	42.6	75.7	28.5%	36.2%	18,479	34,709	13.9%	22.3%
HARDWOOD LOGS	MMBF	1.4	3.7	-40.6%	-24.0%	264	596	-20.5%	-14.7%
HARDWOOD VENEER	MMSFsurf	90.0	174.6	6.5%	-27.8%	7,844	14,521	17.5%	-32.3%
HARDWOOD PLYWOOD	MMSF 3/8"	239.8	521.6	-14.9%	36.6%	33,569	73,677	-16.3%	18.1%
PARTICLEBOARD	MMSF 3/4"	115,036.8	220,808.7	8.8%	41.1%	10,375	20,088	6.8%	38.7%
ALL OTHER		NA	NA	NA	NA	73,994	149,782	-2.4%	-5.5%
TOTAL U.S. IMPORTS		NA	NA	NA	NA	362,110	692,917	9.5%	-2.7%

Note: Volume total is not possible because the products are in different units of measure.





CONSTRUCTION AND HOUSING STATISTICS

	CURRENT			YEAR-TO-DATE	
	Latest Month Available	% Change From		Latest Period Available	% Change From
	Feb. '85	Jan. '85	Feb. '84	2 mo. '85	2 mo. '84
	(Billions of Dollars)				
VALUE OF ALL NEW CONSTRUCTION PUT-IN-PLACE	21.4	-2.3%	5.7%	43.3	9.2%
Private	18.1	-1.1%	6.0%	36.4	9.2%
Residential	8.6	-2.3%	-2.9%	17.4	0.6%
Nonresidential & Other	9.5	.0%	15.7%	19.0	18.4%
Public	3.3	-8.3%	4.1%	6.9	9.3%
	Feb. '85	Jan. '85	Feb. '84	2 mo. '85	2 mo. '84
	(Thousands of Units)				
NEW HOUSING UNITS STARTED					
Total Private & Public	95.8	-9.1%	-30.6%	345.6	-8.5%
New Private Starts	95.4	-9.5%	-30.6%	345.0	-8.4%
Seas. Adj. Annual Rate	1647	-10.9%	-0.9%		
One-Family Housing Starts	63.4	6.9%	-27.8%	215.3	-9.0%
Proportion of Total	66.2%			62.3%	
	(Number of Units)				
SHIPMENTS OF MOBILE HOMES	19,700	5.9%	-11.3%	38,300	-9.2%

EMPLOYMENT STATISTICS

		% Change From	
	Feb. '85	Jan. '85	Feb. '84
	(Thousands of Employees)		
TOTAL EMPLOYMENT (Seasonally Adj.)			
All Industries	96,157	0.1%	3.3%
All Manufacturing Industries	19,739	-0.3%	1.4%
Lumber and Wood Products	708	-1.0%	-0.6%
Furniture and Fixtures	497	0.0%	2.9%